TOTAL ENTERTAINMENT RESTAURANT CORP
Form 10-Q
October 19, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended	Commission file number
SEPTEMBER 4, 2001	000-22753

TOTAL ENTERTAINMENT RESTAURANT CORP.
(Exact Name of Registrant as Specified in its Charter)

DELAWARE	52-2016614
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

9300 EAST CENTRAL AVENUE
SUITE 100
WICHITA, KANSAS 67206
(Address of principal executive offices) (Zip code)

(316) 634-0505
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

X YES NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

CLASS	Outstanding at October 1, 2001
COMMON STOCK, $.01 PAR VALUE	8,666,111 SHARES

TOTAL ENTERTAINMENT RESTAURANT CORP.

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TOTAL ENTERTAINMENT RESTAURANT CORP.
Condensed Consolidated Balance Sheets
(Unaudited)

	September 4, 2001	Decem
ASSETS		
Current assets:		
Cash and cash equivalents	2,325,332	
Inventories	1,145,122	
Deferred income taxes	231,638	
Other current assets	858,578	
Total current assets	4,560,670	

Property and equipment:	
Land	600,000
Buildings	670,629
Leasehold improvements	24,322,947
Equipment	14,446,440
Furniture and fixtures	3,597,670
	43,637,686
Less accumulated depreciation and amortization	11,523,266
	32,114,420
Other assets:	
Goodwill, net of accumulated amortization	3,736,260
Deferred income taxes	865,758
Other assets	550,305
Total other assets	5,152,323
Total assets	$ 41,827,413

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:	
Current portion of notes payable	$ 2,703,147
Accounts payable	1,799,594
Sales tax payable	718,954
Accrued payroll	663,383
Accrued payroll taxes	259,112
Accrued income taxes	1,129,078
Lease obligation for closed store	184,737
Other accrued liabilities	1,391,213
Total current liabilities	8,849,218
Notes payable	10,261,853
Deferred revenue	123,368
Stockholders' equity:	
Preferred stock	-
Common stock	86,661
Additional paid-in capital	17,134,948
Retained earnings	5,371,365
Total stockholders' equity	22,592,974
Total liabilities and stockholders' equity	$ 41,827,413

See accompanying notes.

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TOTAL ENTERTAINMENT RESTAURANT CORP.
Condensed Consolidated Statements of Operations
(UNAUDITED)

	Twelve weeks ended September 4, 2001	Twelve weeks ended September 5, 2
Sales:		
Food and beverage	$13,118,741	$10,13
Entertainment and other	1,431,944	1,14
Total net sales	14,550,685	11,28
Costs and expenses:		
Costs of sales	3,941,098	2,95
Entertainment and restaurant operating expenses	7,924,276	6,26
Depreciation and amortization	878,607	82
Preopening costs	298,595	2
Entertainment and restaurant costs and expenses	13,042,576	10,06
Entertainment and restaurant operating income	1,508,109	1,21
General and administrative expenses	897,368	85
Goodwill amortization	56,346	5
Income from operations	554,395	30
Other income (expense):		
Loss on disposal of assets	(38,768)	(2
Other income, principally interest	1,263	
Interest expense	(186,870)	(25
Income before provision for income taxes	330,020	3
Provision for income taxes	110,036	1
Net income	$ 219,984	$ 2
Basic and diluted earnings per share	$ 0.03	$

See accompanying notes.

TOTAL ENTERTAINMENT RESTAURANT CORP.
Condensed Consolidated Statements of Operations
(UNAUDITED)

	Thirty-six weeks ended September 4, 2001	Thirty-six weeks ended September 5, 2
Sales:		
Food and beverage	$41,376,769	$33,19
Entertainment and other	4,335,961	3,74

Total net sales	45,712,730	36,93
Costs and expenses:		
Costs of sales	12,431,749	9,65
Entertainment and restaurant operating expenses	23,695,897	19,03
Depreciation and amortization	2,545,354	2,48
Preopening costs	669,066	3
Entertainment and restaurant costs and expenses	39,342,066	31,21
Entertainment and restaurant operating income	6,370,664	5,72
General and administrative expenses	2,674,861	2,71
Goodwill amortization	169,036	16
Income from operations	3,526,767	2,83
Other income (expense):		
Loss on disposal of assets	(90,596)	(5
Other income, principally interest	1,457	
Interest expense	(664,708)	(74
Income before provision for income taxes	2,772,920	2,04
Provision for income taxes	999,676	75
Net income	$ 1,773,244	$ 1,28
Basic and diluted earnings per share	$ 0.20	$

See accompanying notes.

TOTAL ENTERTAINMENT RESTAURANT CORP.
Condensed Consolidated Statement of Cash Flows
(UNAUDITED)

	Thirty-six weeks ended September 4, 2001
Cash flows from operating activities:	
Net income	$ 1,773,244
Adjustments to reconcile net income to net cash provided by operating activities:	
Loss on disposal of assets	90,596
Depreciation and amortization	2,749,979
Deferred income taxes	123,649
Net change in operating assets and liabilities:	
Change in operating assets	(582,051)
Change in operating liabilities	(1,220,005)
Net cash provided by operating activities	2,935,412

Cash flows from investing activities:	
Purchases of property and equipment	(3,705,670)
Purchases of limited partnership interests	-
Proceeds from disposal of assets	33,300
Net cash used in investing activities	(3,672,370)
Cash flows from financing activities:	
Proceeds from revolving note payable to bank	32,530,000
Payments of revolving note payable to bank	(31,545,000)
Purchases of common stock	(167,316)
Net cash provided by (used in) financing activities	817,684
Net increase in cash and cash equivalents	80,726
Cash and cash equivalents at beginning of period	2,244,606
Cash and cash equivalents at end of period	$ 2,325,332
Supplemental disclosure of cash flow information:	
Cash paid for interest	$ 571,373
Cash paid for income taxes	756,000
Supplemental disclosure of non cash activity:	
Additions to property and equipment in accounts payable	328,890

See accompanying notes.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND DESCRIPTION OF BUSINESS

The unaudited condensed consolidated financial statements have been prepared by the Company, pursuant to the rules and regulations of the Securities and Exchange Commission. The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments) which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and footnote disclosures normally presented in annual financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations. These financial statements should be read in conjunction with the Company's audited consolidated financial statements in its 2000 Form 10-K. The results of the twelve weeks ended September 4, 2001 are not necessarily indicative of the results to be expected for the full year ending December 25, 2001.

2. STOCK OPTIONS

During the twelve week period ended September 4, 2001, the Company granted to certain key employees stock options for 215,000 shares of Common Stock at exercise prices ranging from $2.85 to $3.00 per share pursuant to its 1997 Incentive and Nonqualified Stock Option Plan. The Company granted to certain non-employee Directors stock options for 6,000 shares of Common Stock at an exercise price of $2.95 per share pursuant to its 1997 Directors Stock Option Plan.

3. EARNINGS PER SHARE

Basic earnings per share amounts are computed based on the weighted average number of shares actually outstanding. The number of weighted averaged shares outstanding for the twelve week periods ended September 4, 2001 and September 5, 2000 were 8,666,111 and 9,303,643, respectively; the number of weighted averaged shares outstanding for the thirty-six week periods ended September 4, 2001 and September 5, 2000 were 8,671,697 and 9,450,164, respectively.

For purposes of diluted computations, the number of shares that would be issued from the exercise of stock options has been reduced by the number of shares which could have been purchased from the proceeds at the average market price of the Company's stock or the price of the Company's stock on the exercise date if options were exercised during the period presented. The number of shares resulting from this computation of diluted earnings per share for the twelve weeks ended September 4, 2001 and September 5, 2000 were 8,701,496 and 9,311,181, and for the thirty-six week periods ended September 4, 2001 and September 5, 2000 were 8,696,688 and 9,453,544, respectively.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

The following discussion and analysis should be read in conjunction with the Financial Statements and Notes thereto included elsewhere in this Form 10-Q.

As of September 4, 2001, the Company owned and operated 41 entertainment and restaurant locations under the Fox and Hound English Pub & Grille and Fox and Hound Smokehouse & Grille ("Fox and Hound"), and Bailey's Sports Grille and Bailey's Pub & Grille ("Bailey's") brand names. The Company's entertainment restaurant locations combine a comfortable and inviting social gathering place, full menu and full-service bar, state-of-the-art audio and video systems for sports and music entertainment, traditional games of skill such as pocket billiards and a late-night dining alternative, all in a single location. As of September 4, 2001, the Company owned and operated 27 Fox and Hound units and 14 Bailey's units located in Alabama, Arkansas, Georgia, Illinois, Indiana, Kansas, Louisiana, Michigan, Missouri, Nebraska, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee and Texas. As of September 5, 2000, the Company owned and operated 23 Fox and Hound units and 12 Bailey's units.

The components of the Company's net sales are food and non-alcoholic beverages, alcoholic beverages, and entertainment and other. For the twelve weeks ended September 4, 2001, food and non-alcoholic beverages were 31.7% of total sales, alcoholic beverages were 58.5% of total sales and entertainment and other were 9.8% of total sales. For the twelve weeks ended September 5, 2000, food and non-alcoholic beverages were 31.7% of total sales, alcoholic beverages were 58.2% of total sales and entertainment and other were 10.1% of total sales

Components of restaurant operating expenses include operating payroll and fringe benefits, occupancy, advertising and promotion. These costs are generally variable and will fluctuate with changes in sales volume and sales mix. All but one of the Company's locations are leased and provide for a minimum annual rent, with some leases calling for additional rent based on sales volume at the particular location in excess of specified minimum levels.

General and administrative expenses include all corporate and administrative functions that support existing operations and provide an infrastructure to support future growth. Management, supervisory and staff salaries, employee benefits, travel, information systems, training, rent and office supplies as well as accounting services fees are major items of costs in this category.

RESULTS OF OPERATIONS

The following table sets forth for the periods indicated (i) the percentages which certain items included in the Condensed Consolidated Statement of Operations bear to net sales, and (ii) other selected operating data:

	TWELVE WEEKS ENDED(1)		THIRTY
	SEPTEMBER 4, 2001	SEPTEMBER 5, 2000	SEPTEM 20
OPERATING STATEMENT DATA:			
Net sales	100.0%	100.0%	10
Costs and expenses:			
Costs of sales	27.1	26.2	2
Restaurant operating expenses	54.4	55.6	5
Depreciation and amortization	6.0	7.3	
Preopening costs	2.1	0.2	
Restaurant costs and expenses	89.6	89.3	8
Restaurant operating income	10.4	10.7	1
General and administrative expenses	6.2	7.5	
Goodwill amortization	0.4	0.5	
Income from operations	3.8	2.7	
Loss on disposal of assets	0.2	0.2	
Interest expense	1.3	2.2	
Income before provision for income taxes	2.3	0.3	
Provision for income taxes	0.8	0.1	

Net income...	1.5%	0.2%	
RESTAURANT OPERATING DATA (DOLLARS IN THOUSANDS):			
Annualized average weekly sales per location (2).........	$ 1,567	$ 1,397	$ 1,
Number of restaurants at end of the period....................	41	35	

(1) The Company operates on a fifty-two or fifty-three week fiscal year ending the last Tuesday in December. The fiscal quarters for the Company consist of accounting periods of twelve, twelve, twelve and sixteen or seventeen weeks, respectively.

(2) Annualized average weekly sales per location are computed by dividing net sales for full weeks open during the period by the number of full weeks open and multiplying the result by fifty-two.

TWELVE WEEKS ENDED SEPTEMBER 4, 2001 COMPARED TO TWELVE WEEKS ENDED SEPTEMBER 5, 2000

Net sales increased $3,268,000 (29.0%) for the twelve weeks ended September 4, 2001 to $14,551,000 from $11,283,000 for the twelve weeks ended September 5, 2000. This increase is due to an increase in same store sales for units open more than 18 months of 9.5% and sales resulting from the six units opened since September 5, 2000.

Costs of sales, primarily food and beverages, increased $988,000 (33.5%) for the twelve weeks ended September 4, 2001 to $3,941,000 from $2,953,000 in the twelve weeks ended September 5, 2000, and increased as a percentage of sales to 27.1% from 26.2%. This increase as a percentage of sales is principally attributable to higher food costs associated with a new menu implemented in the first quarter of 2001 and an increase in certain raw product costs.

Entertainment and restaurant operating expenses increased $1,657,000 (26.4%) for the twelve weeks ended September 4, 2001 to $7,924,000 from $6,267,000 in the twelve weeks ended September 5, 2000, and decreased as a percentage of net sales to 54.4% from 55.6%. This

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decrease is attributable to the effect of leveraging fixed expenses against higher unit volumes, lower advertising costs, which were lower as a percent of net sales by 0.3 percentage points (0.3pp) versus last year, lower premium TV and live music (0.7pp lower than last year) offset by higher hourly labor costs (0.4pp higher than last year) and higher unit managers' compensation (0.3pp higher than last year).

Depreciation and amortization increased $53,000 (6.3%) for the twelve weeks ended September 4, 2001 to $879,000 from $826,000 in the twelve weeks ended September 5, 2000, and decreased as a percentage of sales to 6.0% from 7.3%. This net increase is due principally to depreciation incurred during 2001 on six units opened since September 5, 2000 offset by depreciation in 2000 on assets in two units for which an impairment charge was taken in the fourth quarter of 2000 and depreciation in 2000 on certain assets with a two-year life which were added in 1998. No depreciation charge was incurred on these assets in 2001.

Preopening costs increased $276,000 for the twelve weeks ended September 4, 2001 to $299,000 from $23,000 in the twelve weeks ended September 5, 2000 and increased as a percentage of net sales to 2.1% from 0.2%. This increase is attributable to the costs incurred for one unit opened during the twelve weeks ended September 4, 2001 and for units which have yet to open.

General and administrative expenses increased $46,000 (5.4%) for the twelve weeks ended September 4, 2001 to $897,000 from $851,000 in the twelve weeks ended September 5, 2000, and decreased as a percentage of sales to 6.2% from 7.5%.

Loss on disposal of assets was $39,000 for the twelve weeks ended September 4, 2001 and $23,000 for the twelve weeks ended September 5, 2000. The losses reflect the disposal of certain video games for several units in both years.

Interest expense was $187,000 for the twelve weeks ended September 4, 2001 and $250,000 for the twelve weeks ended September 5, 2000. This decrease is due to a lower interest rate applicable to the revolving note payable in the current year compared with the prior year offset by a higher average balance on the revolving note payable during the current year compared with the prior year.

The effective income tax rate was 33.3% for the twelve weeks ended September 4, 2001 and 37.0% for the twelve weeks ended September 5, 2000.

THIRTY-SIX WEEKS ENDED SEPTEMBER 4, 2001 COMPARED TO THIRTY-SIX WEEKS ENDED SEPTEMBER 5, 2000

Net sales increased $8,774,000 (23.8%) for the thirty-six weeks ended September 4, 2001 to $45,713,000 from $36,939,000 for the thirty-six weeks ended September 5, 2000. This increase is due to an increase in same store sales for units open more than 18 months of 7.0% and sales resulting from the six units opened since September 5, 2000.

Costs of sales, primarily food and beverages, increased $2,776,000 (28.8%) for the thirty-six weeks ended September 4, 2001 to $12,432,000 from $9,656,000 in the thirty-six weeks ended September 5, 2000, and increased as a percentage of sales to 27.2% from 26.1%. This increase as a percentage of sales is principally attributable to higher food costs associated with a new menu implemented in the first quarter of 2001 and an increase in certain raw product costs.

Entertainment and restaurant operating expenses increased $4,660,000 (24.5%) for the thirty-six weeks

ended September 4, 2001 to $23,696,000 from $19,036,000 in the thirty-six weeks ended September 5, 2000, and increased as a percentage of net sales to 51.8% from 51.5%. This increase is attributable to higher hourly labor costs (0.4pp) in the six new units opened since September 5, 2000, higher hourly labor costs associated with a new menu implemented in the first quarter of 2001 (0.7pp higher than last year) and higher utility costs (0.3pp higher than last year), offset by lower advertising costs (0.2pp lower than last year), lower premium TV and live music costs (0.4pp lower than last year), and the effect of leveraging fixed expenses against higher unit volumes.

Depreciation and amortization increased $56,000 (2.3%) for the thirty-six weeks ended September 4, 2001 to $2,545,000 from $2,489,000 in the thirty-six weeks ended September 5, 2000, and decreased as a percentage of sales to 5.6% from 6.8%. This increase is due to depreciation incurred during 2001 on six units opened since September 5, 2000 offset by depreciation in 2000 on assets in two units for which an impairment charge was taken in the fourth quarter of 2000 and depreciation in 2000 on certain assets with a two-year life which were added in 1998. No depreciation charge was incurred on these assets in 2001.

Preopening costs increased $632,000 for the thirty-six weeks ended September 4, 2001 to $669,000 from $37,000 in the thirty-six weeks ended September 5, 2000 and increased as a percentage of net sales to 1.5% from 0.1%. This increase is attributable to the costs incurred for units opened during the thirty-six weeks ended September 4, 2001 and for units which have yet to open.

General and administrative expenses decreased $38,000 (1.4%) for the thirty-six weeks ended September 4, 2001 to $2,675,000 from $2,713,000 in the thirty-six weeks ended September 5, 2000, and decreased as a percentage of sales to 5.8% from 7.3%.

Loss on disposal of assets was $91,000 for the thirty-six weeks ended September 4, 2001 and $55,000 for the thirty-six weeks ended September 5, 2000. The losses reflect the disposal of certain video games for several units in both years.

Interest expense was $665,000 for the thirty-six weeks ended September 4, 2001 and $742,000 for the thirty-six weeks ended September 5, 2000. This decrease is due to a lower interest rate applicable to the revolving note payable in the current year compared with the prior year offset by a higher average balance on the revolving note payable during the current year compared with the prior year.

The effective income tax rate was 36.1% for the thirty-six weeks ended September 4, 2001 and 37.0% for the thirty-six weeks ended September 5, 2000.

QUARTERLY FLUCTUATIONS, SEASONALITY AND INFLATION

The timing of new unit openings will result in significant fluctuations in quarterly results. The Company expects seasonality to be a factor in the results of its business in the future due to expected lower second and third quarter revenues due to the summer season. The primary inflationary factors affecting the Company's operations include food, liquor and labor costs. A large number of the Company's restaurant personnel are tipped employees who are paid at the federal subminimum wage level; therefore, future subminimum wage changes will have a significant effect on labor costs. As costs of food and labor have increased, the Company has historically been able to offset these increases through economies of scale, improved operating procedures and menu price changes; however, short-term fluctuations in raw product pricing may

have an impact on the Company's costs of food. To date, inflation has not had a material impact on operating margins.

LIQUIDITY AND CAPITAL RESOURCES

As is customary in the restaurant industry, the Company operates with negative working capital. Negative working capital increased $854,000 to $4,289,000 as of September 4, 2001 from $3,435,000 as of December 26, 2000. This increase is attributable to an increase of $2,285,000 related to current portion of notes payable at September 4, 2001 compared to the balance at December 26, 2000 offset by a decrease in accounts payable of $1,721,000 in accounts payable at September 4, 2001 compared to December 26, 2000. The decrease in accounts payable is primarily attributable to a decrease of $1,217,000 in property and equipment additions included in accounts payable at September 4, 2001 compared to December 26, 2000. The Company does not have significant receivables or inventory and receives trade credit based upon negotiated terms in purchasing food and supplies. Because funds available from cash sales are not needed immediately to pay for food and supplies, or to finance inventory, they may be considered as a source of financing for noncurrent capital expenditures.

On September 1, 1998 the Company entered into a loan agreement with Intrust Bank, N.A. (the "Facility") which provides for a line of credit of $20,000,000 subject to certain limitations based on earnings before interest, taxes, depreciation and amortization of the past fifty-two weeks. The Facility requires monthly payments of interest only until November 1, 2001, at which time equal monthly installments of principal and interest are required as necessary to fully amortize the outstanding indebtedness plus future interest over a period of four years. Interest is accrued at 1/2% below the prime rate as published in THE WALL STREET JOURNAL. Proceeds from the Facility are being used for restaurant development and stock repurchases. As of September 4, 2001 the Company had borrowed $12,965,000 under the Facility. The Company is in compliance with all debt covenants. The Company is currently in negotiations with Intrust Bank, N.A. to extend the requirement to begin monthly installments of principal and interest from November 1, 2001 until November 1, 2003. However, no binding extension has been reached to date.

Cash flows from operations were $2,935,000 in the thirty-six weeks ended September 4, 2001 compared to $4,018,000 in the thirty-six weeks ended September 5, 2000. Purchases of property and equipment were $3,706,000 in 2001 compared to $716,000 in 2000. Net advances of the revolving note payable to bank was $985,000 for the thirty-six week period ending September 4, 2001 compared to net payments of $2,390,000 for the thirty-six week period ending September 5, 2000. The Company spent $167,000 to repurchase 75,300 shares of common stock in 2001 compared to $831,000 of common stock repurchases in 2000. At September 4, 2001, the Company had $2,325,000 in cash and cash equivalents.

The Company intends to open up to seven new locations in 2001 and between seven and ten locations in 2002. Three units have been opened in fiscal 2001, four units are currently under construction and an additional three leases have been executed. The Company is currently evaluating locations in markets familiar to its management team. However, the number of locations actually opened and the timing thereof may vary depending upon the ability of the Company to locate suitable sites and negotiate favorable leases. The Company expects to expend approximately $10.0 to $15.0 million to open new locations over the next twelve months.

Assuming the requirement to begin principal and interest payments on the Facility is deferred until November 1, 2003, the Company believes the funds available from the Facility and its cash

flow from operations will be sufficient to satisfy its working capital and capital expenditure requirements for at least the next twelve months. There can be no assurance, however, that the Company will successfully defer the principal payment requirements of its Facility or that changes in the Company's operating plans, the acceleration or modification of the Company's expansion plans, lower than anticipated revenues, increased expenses, stock repurchases, potential acquisitions or other events will not cause the Company to seek additional financing sooner than anticipated, prevent the Company from achieving the goals of its expansion strategy or prevent any newly opened locations from operating profitably. There can be no assurance that additional financing will be available on terms acceptable to the Company or at all.

NEW ACCOUNTING PRONOUNCEMENT

In July, 2001, the Financial Accounting Standards Board (FASB) issued Statement No. 142, Goodwill and Other Intangible Assets.

Statement No. 142 requires that goodwill no longer be amortized to earnings, but instead be reviewed for impairment. The amortization of goodwill ceases upon adoption of the Statement, which for most companies, will be January 1, 2002. The Company is currently recording goodwill amortization expense of $244,163 per year. Such amortization expense will no longer be recorded upon adoption of this statement.

FORWARD LOOKING STATEMENTS

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. Although the Company believes that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and, therefore, there can be no assurance that the forward-looking statements included in this report will prove to be accurate. Factors that could cause actual results to differ from the results discussed in the forward-looking statements include, but are not limited to, potential increases in food and liquor costs, competition and the inability to find suitable new locations. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the objectives and plans of the Company will be achieved.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATE RISK

The Company's Facility has a variable rate which is directly affected by changes in U.S. interest rates. The average interest rate of the Facility was 6.29% for the twelve weeks ended September 4, 2001. The interest rate at September 4, 2001 was 6.00%. The following table presents the quantitative interest rate risks at September 4, 2001:

	Principal Amount by Expected Maturity (In thousands)						
(DOLLARS IN THOUSANDS)	2001	2002	2003	2004	2005	There-AFTER	
Variable rate debt	$481	$2,986	$3,170	$3,366	$2,962	$--	$12
Average Interest Rate--							

1/2% below prime	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%

PART II. OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Securities Sold

(c) The following unregistered securities were issued by the Company during the twelve weeks ended September 4, 2001:

Date of Sale/Issuance	Description of Securities Issued	Number of Shares Sold/Issued/Subject to Options or Warrants	O
June 27, 2001	Common Stock Options	7,500	
July 11, 2001	Common Stock Options	7,500	
July 17, 2001	Common Stock Options	3,000	
July 17, 2001	Common Stock Options	3,000	
July 24, 2001	Common Stock Options	80,000	
July 24, 2001	Common Stock Options	70,000	
July 24, 2001	Common Stock Options	50,000	

All of the above options were granted to certain key employees pursuant to the 1997 Incentive and Nonqualified Stock Option Plan or to non-employee directors pursuant to the Directors Stock Option Plan. The options for employees have a vesting period of three to five years and a life of ten years and the options for non-employee directors have a vesting period of three years and a life of five years.

The issuance of these securities is claimed to be exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended, as transactions by an issuer not involving a public offering. There were no underwriting discounts or commissions paid in connection with the issuance of any of these securities.

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Exhibits

None

Reports on Form 8-K

None

TOTAL ENTERTAINMENT RESTAURANT CORP.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed in its behalf by the undersigned thereunto duly authorized.

TOTAL ENTERTAINMENT RESTAURANT CORP.
(Registrant)

Date October 18, 2001

/s/ James K. Zielke

James K. Zielke
Chief Financial Officer,
Secretary and Treasurer
(Duly Authorized Officer)